TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 1727 - HB 1806

February 26, 2020

SUMMARY OF ORIGINAL BILL: Requires, beginning July 1, 2020, local government entities not participating in the Tennessee Consolidated Retirement System (TCRS), who fail to fund their pension plan at 100 percent of the actuarially determined contribution (ADC) in any given fiscal year, to fund the pension plan at 100 percent in the subsequent fiscal year, plus the difference in actual funding from the previous fiscal year.

FISCAL IMPACT OF ORIGINAL BILL:

Increase Local Expenditures –
Exceeds $404,900/FY21-22 and Subsequent Years*

SUMMARY OF AMENDMENT (014559): Adds language to the original bill to (1) define benefit enhancement as it relates to changes in certain pension plans which must first be approved by the Treasurer; and (2) establishes parameters for what actions constitute a new pension plan for local government entities not participating in TCRS and require approval of the Treasurer prior to implementation.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- The proposed language is applicable only to municipalities, counties, utility districts, school districts, public building authorities, housing authorities, emergency communications districts, and development districts who maintain a pension plan independent of the TCRS.
- Pursuant to Tenn. Code Ann. § 9-3-503 through 9-3-506:
  - An ADC is the annual contribution that incorporates both the normal cost of benefits and the amortization of the pension plan's unfunded accrued liability;
  - An entity not participating in the TCRS is required to fund their pension plan at 100 percent of the ADC annually;

- Entities not funding their pension plan at 100 percent as of June 30, 2015 are required to increase their contribution a percentage of the difference each year over a maximum of five years until the plan is funded at 100 percent;
    - Entities unable to meet this annual percentage progression are required to submit a plan of action to the State Treasurer detailing a plan for funding the pension plan at 100 percent by June 30, 2020;
    - For any pension plan funded below 60 percent, the entity is prohibited from establishing benefit enhancements unless approved by the Treasurer; and
    - For entities which had an existing plan as of May 22, 2014, the entity is prohibited from establishing a new pension plan until it has received written approval from the Treasurer.
- According to information provided by the Department of Treasury:
    - In each fiscal year from FY14-15 to FY16-17: three entities did not fund their pension plan at 100 percent;
    - In FY17-18: six entities did not fund their pension plan at 100 percent; and
    - Since 2014, a benefit enhancement or new pension plan determination has not been made, and the proposed definitions are required to aid in the application of Tenn. Code Ann. § 9-3-506 due to receipt of an inquiry from an applicable entity.
- Based on information provided by the Department of Treasury, in FY17-18:
    - Three entities did not fund their pension plan at 100 percent of the ADC, and had a total deficiency of $110,028;
    - Three entities failed to meet their annual percentage progression for a total progression deficiency of $294,885;
    - Of these six entities, the average annual fund deficiency is $67,486 [($110,028 + $294,885) / 6].
- While the precise number of applicable entities and the extent of fund deficiency in any given fiscal year is unknown, this analysis assumes that at least three applicable entities will fail to fund their pension plan at 100 percent of the ADC each year.
- The proposed definitions and parameters for requiring approval from the Treasurer are not estimated to result in any significant fiscal impact to local government.
- Under the proposed language, beginning July 1, 2020 (FY20-21), entities which do not fund their pension plan at 100 percent of the ADC in one fiscal year would be required, in the following fiscal year, to fund the plan at 100 percent, and also increase funding to cover the deficiency from the previous year. Therefore, the first year impacted by this legislation will be FY21-22.
- The proposed language will result in a mandatory, recurring increase in local expenditures estimated to exceed $404,916 [($67,486 average deficiency per fiscal year + $67,486 deficiency from previous fiscal year) x 3 deficient entities per year], beginning FY21-22.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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